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CITIZENS SUMMARY

Findings in the audit of the City of Cross Timbers

Misappropriated Money and Utility Services	From October 1, 2017, through July 31, 2020, money totaling at least \$44,452 was misappropriated from the city by the City Clerk, including undeposited city receipts of \$21,474; overpayments of \$6,132; questionable payments of \$13,525; improper payments of \$569; and improperly recorded utility payments (\$1,973) and adjustments (\$234) to the City Clerk's utility account, and \$545 of improperly unbilled utility services related to that account. In addition, during the period January 2015 through July 2020, we identified \$5,280 of improperly recorded utility payments and adjustments and unbilled utility services related to a former Alderman's utility account.
Financial Condition	The city finances are in poor financial condition, and the Board of Aldermen had not adequately monitored that condition.
Oversight, Annual Audits and City Ordinances	The Board did not establish adequate segregation of duties or supervisory reviews over the various financial accounting functions performed by the City Clerk. The city has not obtained annual audits of its combined water and sewer system as required by state law. City ordinances are not complete and have not been updated since 2013.
Payroll and Related Matters	The Board did not document the basis for classifying the City Clerk and the former Maintenance Supervisor as independent contractors rather than employees. The Board and City Clerk did not pay past due taxes, interest, and penalties due from December 2010 to December 2013, and as a result, the city owes the Internal Revenue Service (IRS) \$15,255 as of September 15, 2021, in unpaid past due taxes (\$8,739), and penalties and interest (\$6,516), with the amount of penalties and interest continuing to increase since the balance remains unpaid. The City Clerk issued herself pay advances totaling \$7,311 in violation of the Missouri Constitution. The City Clerk did not prepare timesheets. The Board did not enter into a written contract with the City Clerk and the City Clerk did not prepare and file accurate 1099 forms for payments made to herself and the Maintenance Supervisor. City officials had no documentation to justify the allocation of the amounts paid the City Clerk and Maintenance Supervisor to the various city bank accounts.
Accounting Controls and Procedures and Disbursements	The city's procedures for receipting, recording, and depositing payments received were poor. The City Clerk did not prepare bank reconciliations for any of the city's bank accounts, maintain a checkbook register or book balances, issue checks in numerical order, and prepare a list of bills or monthly financial reports for the Board's review. The Board and City Clerk did not ensure required sewer loan payments occurred. The City Clerk made excessive and unauthorized transfers between various bank accounts and did not ensure some bills were paid timely, resulting in more than \$20,000 in outstanding bills as of September 15, 2021. City officials could not provide copies of some meeting minutes, invoices, delinquent notices from the IRS, the City Clerk's calendars of time worked, 1099 forms, and documentation of expense reimbursements.
Utility System Controls and Procedures	Improper adjustments were made to the utility account of the City Clerk and a former Alderman, and we noted several other adjustments and the reasons documented for the adjustments that were unusual. City personnel do not

prepare proper reconciliations related to utility services. They also do not reconcile customer utility deposit balances reported in the utility system to the account holding the funds, and the City Clerk transferred amounts from that account to other bank accounts to pay city bills. Delinquent utility accounts are not always shut off as required by ordinance, and the City Clerk allowed some customers to make partial payments on delinquent accounts without Board approval. Current water and sewer rates are not supported by a cost study or other documentation showing how the rates were determined. The city had not filed or remitted sales taxes collected related to utility services provided for some months to the Department of Revenue.

Budgets and Financial Reporting

The City Clerk did not prepare a budget for the years ended December 31, 2020, 2019, or 2018. City officials did not file timely annual financial reports with the State Auditor's Office as required by state law, and the financial statements filed were not accurate. The city has not published financial statements for the years ended December 31, 2020, 2019, and 2018.

Sunshine Law

The Board did not always prepare and maintain meeting minutes. City officials could not locate meeting minutes for monthly Board meetings occurring in March, April, May, and June 2018, and also February and July 2019. The Board has not adopted a written policy regarding public access to city records as required by state law.

Electronic Data Security

The city has not established adequate password controls to reduce the risk of unauthorized access to the city's computer and data. The city did not have antivirus software installed on the city's computer to ensure protection of data. City personnel do not periodically back up some city data and store the backup data at a secure off-site location.

Electronic Communication Policy

The city has not developed a records management and retention policy in compliance with the Missouri Secretary of State Records Services Division guidance, as approved by the Missouri Local Records Commission.

In the areas audited, the overall performance of this entity was **Poor**.*

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*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.



Recommendations in the audit of the City of Cross Timbers

Misappropriated Money and Utility Services	The Board of Aldermen continue to work with law enforcement officials regarding criminal prosecution of the overpayments, questionable payments, improper payments, improperly recorded utility payments and adjustments, utility services improperly not billed, and undeposited city receipts; and take the necessary actions to obtain restitution. The Board should also closely examine city transactions to identify conflicts of interest.
Financial Condition	The Board of Aldermen perform immediate and long-term planning, and closely monitor and take necessary steps to improve the city's financial condition.
Oversight, Annual Audits, and City Ordinances	The Board of Aldermen: 3.1 Segregate accounting duties to the extent possible and implement appropriate reviews and monitoring procedures. 3.2 Obtain annual audits of the combined water and sewer system as required by state law and loan/grant. 3.3 Establish the compensation of all city officials and employees by ordinance as required by statute, ensure ordinances are maintained in a complete and well-organized manner, establish an index of all ordinances passed and rescinded, and update ordinances for water and sewer rates.
Payroll and Related Matters	The Board of Aldermen: 4.1 Determine the proper classification for the City Clerk and Maintenance Supervisor to ensure compliance with state and federal laws and regulations. 4.2 Ensure sufficient payments of past due payroll taxes are remitted timely to the appropriate taxing entities to reduce balances due. 4.3 Discontinue the practice of providing pay advances to workers. 4.4 Ensure timesheets or other records of work performed are prepared accurately, retained, and properly signed and approved. 4.5 Execute and retain written contracts for services that specify the services to be rendered and the manner and amount of payments to be paid. The Board should also establish procedures to ensure all payments are properly reported and payroll taxes withheld and remitted to the appropriate taxing entity. The Board and the current City Clerk should prepare or amend the applicable tax forms issued to the City Clerk and former Maintenance Supervisor for compensation provided as appropriate.

- 4.6 Allocate disbursements to city accounts based on specific criteria and retain documentation to support the allocation.

Accounting Controls and
Procedures and Disbursements

The Board of Aldermen:

- 5.1 Issue prenumbered receipt slips for all payments received, indicate the method of payment on all receipt slips, account for the numerical sequence of receipt slips, reconcile the composition of receipts to the composition of deposits, require receipts be accurately and promptly recorded to the utility system, and deposit all payments received intact. Additionally, discontinue paying city expenses from city receipts and if a petty cash fund is needed to pay city expenses, the Board should authorize the fund and its uses and require the fund be maintained on an imprest basis and all activity be recorded on a petty cash fund ledger.
- 5.2 Ensure monthly bank reconciliations are prepared for all bank accounts; checkbook registers, book balances, and lists of disbursements are maintained; and checks are issued in numerical sequence with the sequence properly accounted for.
- 5.3 Ensure an accurate and complete monthly list of bills is prepared and compared to invoices and checks written, and monthly financial reports are prepared and reviewed for accuracy. In addition, the Board should ensure invoices are marked paid and adequately reviewed, and require documentation of receipt of goods and/or services prior to payment of invoices. The Board should also document its review of monthly bank statements and utility reports and properly monitor bank account balances to avoid bank charges.
- 5.4 Ensure compliance with payment requirements of loan agreements.
- 5.5 Monitor and reduce the number of transfers made between bank accounts, and ensure transfers are not prohibited by state law. The Board should also determine the amount of restricted funds in the city's accounts and establish separate funds or a separate accounting of this money, including the balances.
- 5.6 Ensure all invoices are paid timely.
- 5.7 Retain records in accordance with state law.

Utility System Controls and
Procedures

The Board of Aldermen:

- 6.1 Evaluate utility system changes to prevent or track deleted transactions, and require an independent and/or supervisory review and approval of all adjustments and deleted transactions made in the utility system.
- 6.2 Ensure monthly reconciliations are performed of amounts billed to amounts collected and delinquent accounts, and of gallons of water billed to gallons pumped, and investigate significant differences.

- 6.3 Periodically reconcile customer utility deposits per the utility system to accounting records and cash balances, and promptly investigate any differences.
- 6.4 Ensure utility service is shut off in accordance with city ordinance. In addition, if the Board wants to allow partial payments, the Board should establish a written partial payment policy, review and approve customer payment agreements, and monitor delinquent accounts.
- 6.5 Ensure a statement of costs is prepared to support utility rate increases and document formal reviews of utility rates periodically to ensure revenues are sufficient to cover all costs of providing these services.
- 6.6 Ensure sales taxes collected are reported and remitted timely.

Budgets and Financial Reporting

The Board of Aldermen:

- 7.1 Prepare accurate annual budgets that contain all information required by state law, and ensure the budgets are adequately monitored.
- 7.2 Submit accurate annual financial reports timely to the State Auditor's Office as required by state law.
- 7.3 Ensure publication of the city's semiannual financial statements as required by state law.

Sunshine Law

The Board of Aldermen:

- 8.1 Ensure meeting minutes are prepared and retained for all open and closed meetings, and ensure specific reasons for closing a meeting are documented in the open meeting minutes.
- 8.2 Develop a written public access policy.

Electronic Data Security

The Board of Aldermen:

- 9.1 Ensure passwords are periodically changed and contain a minimum number of characters to prevent unauthorized access to the city's computer and data.
- 9.2 Ensure the city's computer and systems are adequately protected from computer viruses.
- 9.3 Require data to be backed up regularly, tested periodically, and stored in a secure off-site location.

Electronic Communication Policy

The Board of Alderman develop a written records management and retention policy to address electronic communications management and retention to comply with Missouri Secretary of State Records Services Division electronic communications guidelines.